

Utah's Economy - 2005

Utah's economy continued to grow and gain momentum as the current business cycle expansion that began in the latter half of 2003 marched on through 2005.

Employment growth accelerated as the year progressed, rising from a 3.6-percent year-over rate in January, ending the year with 4.3-percent employment growth by December. The average growth rate for the entire year measured 4.0 percent. This marks the first year since 1997 that Utah's employment growth rate met or exceeded the state's long-term average yearly employment growth rate of 3.3 percent. That ends a seven-year span of underperformance.

Correcting an Imbalance

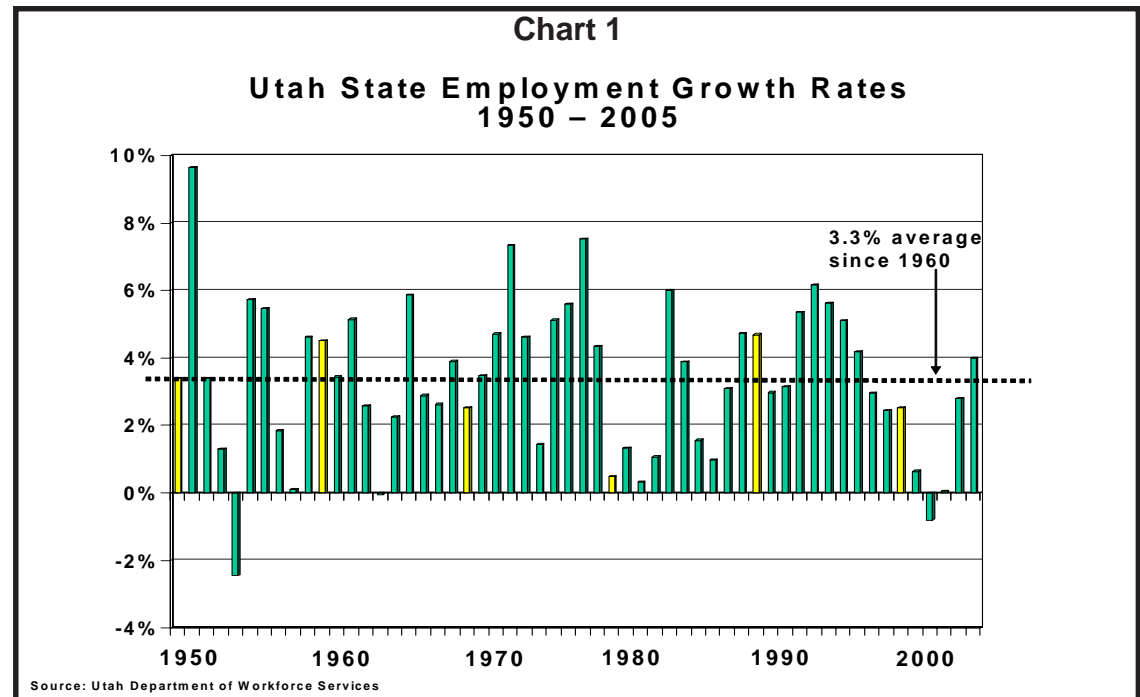
An underperformance of employment growth that long sets the stage for the next round of economic activity, particularly when combined with the fact that population growth was quite strong in Utah during that underperforming seven-year period. Population growth and economic growth will operate in unison over time. However, it is possible in the short run for one to outperform the other. This, in turn, creates an imbalance between the mass of people and the level of economic interaction that mass naturally sustains. That is the very scenario

that developed, as the economy went into a three-year funk beginning in 2001 and emerging in late 2003. Utah population growth continued at a hefty pace over that time, while the number of jobs in Utah actually decreased.

This divergent interaction creates pressures in the economy that will eventually be rebalanced. It is analogous to adding pressure (population growth) to a spring (the synergy between a population and its economy) while that spring is being re-

strained by clamps (the economic environment). The pressure in the spring increases with time, so that when the clamps are finally removed (the economic environment improves), the spring shoots upward at a rapid pace.

That illustration gives us a picture of what happened in the Utah economy during 2005. The level of job growth is trying to catch up with the accelerating level of population growth. The other states that are leading the nation in employment growth



along with Utah, namely Nevada, Arizona, and Idaho, all share this same characteristic--large levels of population growth.

Diverse Employment Growth

An interesting aspect of Utah's current economic growth is its diversity. All employment sectors are adding new jobs. Often, expanding economies are the result of net employment gains. Some industries are adding jobs while others are shedding them. The gains outpace the losses, and the net is employment growth. But that is not the face of the current Utah employment expansions. All industrial sectors are adding jobs.

This is not only a characteristic of the industries within the state, but also a characteristic of the various county and regional economies within the state. Only five small counties showed slightly fewer jobs this year than in 2004. The remainder are showing modest-to-impressive gains.

Washington County stands out as the fastest-growing local economy with a growth rate of 10.2 percent. That would make Washington County one of the nation's fastest growing counties for its size. Other counties with exceptionally high employment growth rates this year include Tooele, Juab, Wasatch, Uintah, Duchesne, and Summit counties. All but Uintah and Duchesne are characterized with their peripheral proximity to the urbanized Wasatch Front. Uintah and Duchesne counties are benefiting from increased oil and

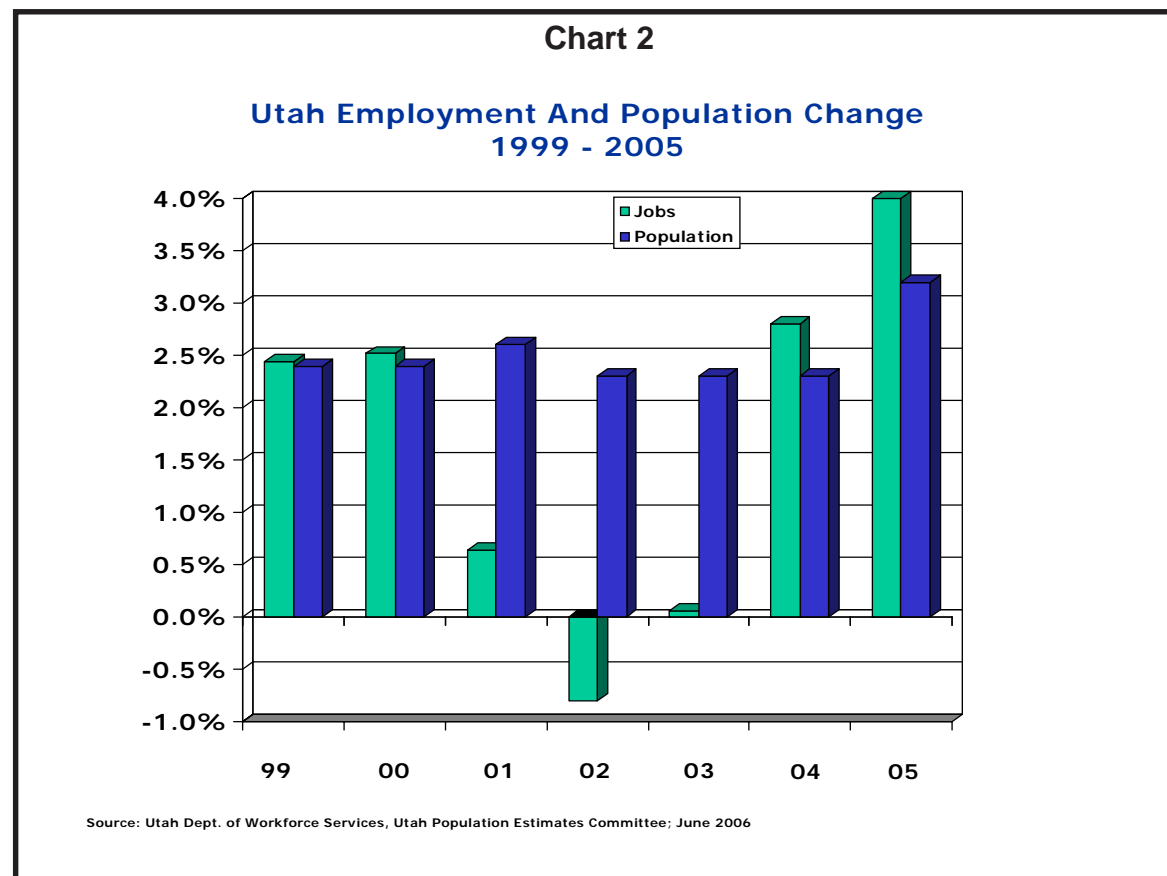
natural gas activities in response to rapidly-rising natural gas and crude oil prices.

Employment by Industry

Mining Mining has rapidly emerged as one of Utah's fastest-growing industries, expanding by 19.6 percent over last year. Granted, the employment gains are small at just under 1,400 new jobs, but for economies that rely heavily upon this industry for their economic prosperity, like the Uintah Basin, mining's re-emergence is welcome news.

Booms and busts have characterized the history of this industry in Utah, but with the current state of the worldwide oil and natural gas industries, the current employment gains look sustainable.

Construction Construction's employment growth rate came in a strong second behind mining at 12.5 percent. The difference with construction is that, because of its size, that large growth rate also translated into a lot of new jobs. In fact, the 9,054 new jobs added in this industry were the most jobs added



by any sector. When construction leads the way in employment growth, you know you are in one of those construction boom cycles.

Construction's strong employment growth offers a picture into the rapid turnaround and growth of Utah's economy. Construction acts as a responder to the economy, either through building to match current demand, or building to satisfy the anticipated future demand investors see for Utah. The current construction growth is responding to both.

Manufacturing The manufacturing industry had another good year in Utah. Around 2,500 new jobs were added to manufacturing payrolls during the year. Utah's positive manufacturing employment picture stands in contrast to much of the nation, which continues to experience declines in manufacturing employment.

Employment gains this year are dominated by durable goods as opposed to the manufacture of non-durable goods. Durable goods are those whose useful life is over three years, and the manufacture of such goods generally results in jobs that pay high wages. Employment gains in durable goods numbered around 2,100, and were registered in primary metals, fabricated metal products, machinery, transportation equipment, and furniture products.

Non-durable manufacturing employment increased by only 350 positions, with increases observed in wood products, chemicals, plastics, and non-metallic minerals. There were notable employment declines in food production and printing.

Trade, Transportation, Utilities This is the largest industrial sector in Utah, employing around 226,000 workers, but it was only the third largest in terms of adding new jobs. Around 6,700 new jobs were added for the year.

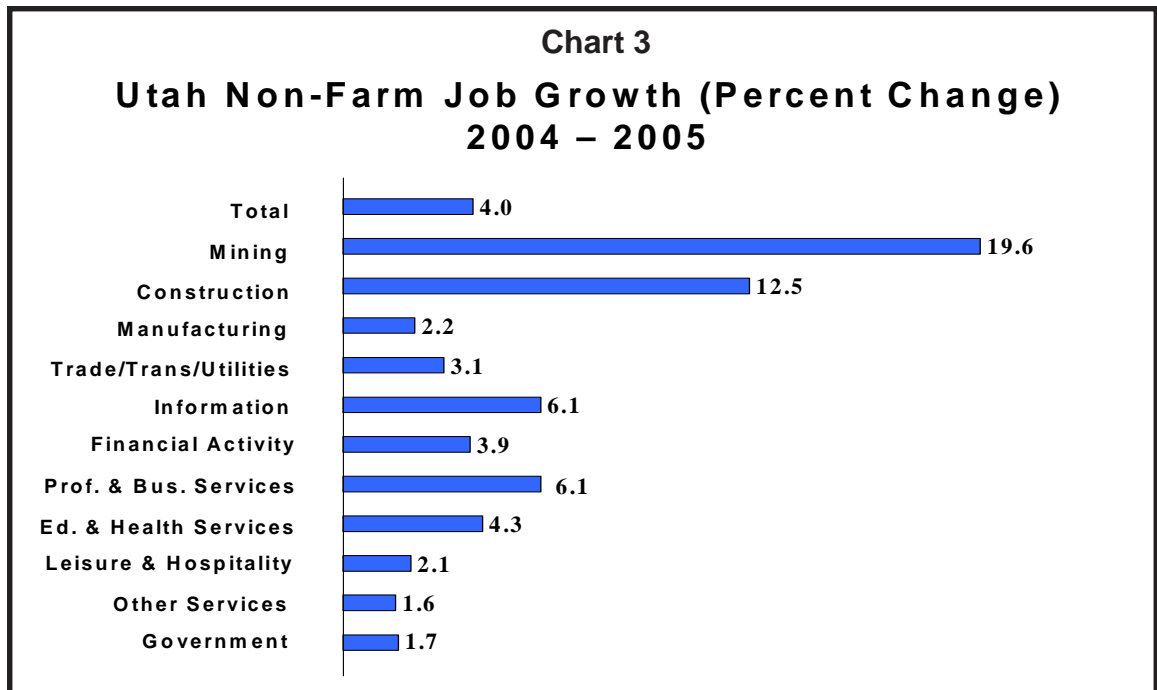
Trade is the largest sub-component within this sector. It accounts for around 178,500 jobs, or nearly 80 percent of employment in this

sector. The trade component added around 4,300 of the 6,700 new jobs created over the past year.

The transportation side employs around 43,000 workers. That is about 2,400 more than last year. Considering the precarious nature of the nation's airline industry in 2005, the addition of 800 more airline-related jobs in Utah this year runs counter to national trends.

Utah's trucking industry added around 300 new jobs this year.

Information Information is one of the smaller employment sectors in Utah. With roughly



32,000 workers, it makes up only 2.8 percent of all Utah employment. This sector took a beating during the dot.com bust years of the early 2000s. It was only last year that this industry saw the beginning of a reversal, with a very small employment gain. This year is built upon that start, and gains of roughly 1,800 new positions show a growing trend and a positive move forward for this industry.

Financial Activity Financial activities employ around 6 percent of all Utah workers, and much of this is centered upon Salt Lake County, the banking and credit center of the state. Over 2,500 new jobs developed over the past year, much of it centered around the housing market. This would encompass mortgage lending activities, and real estate sales.

Professional and Business Services

Those businesses whose major input is human capital are grouped together within this sector. This is generally a high-wage industry group. Activities such as software development, biotechnology, research and development, engineering, accounting, and legal services are found here. There are additional significant employment areas in this sector, such as call centers and employment services, which are not known as high-wage areas.

This sector added the second most new jobs over the year, with nearly 8,500 to its credit. A little over half of these gains occurred in employment services, which provide temporary

help or placement activities for businesses. Businesses continue to use hiring agencies as vehicles and screening agencies for employment expansions.

Professional and technical jobs made significant employment gains this year, adding close to 3,900 new jobs. These are a welcome addition to the Utah employment picture as these are generally high-paying positions.

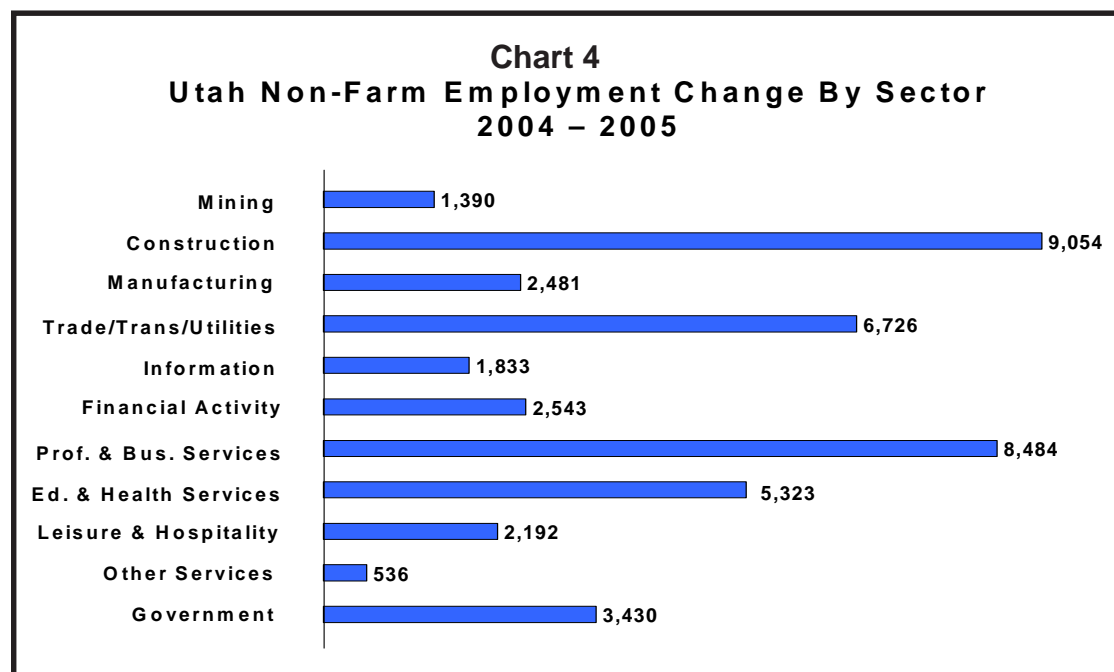
Professional and business services make up nearly 13 percent of Utah's employment base.

Education and Health Services This sector continues to expand, continuing a multi-year expansion that is signaling no end in

sight. Another 5,300 new jobs were added over the past year, most in healthcare.

Healthcare added nearly 4,000 new jobs this year. Offices of doctors, dentists, therapists, chiropractors and others expanded their payrolls by over 1,700 positions. Hospitals also added new staff with the addition of just under 800 new workers. Nursing care facilities also added nearly 800 new workers.

The private education community in Utah employs around 28,600 workers in Utah. Government is a big education employer in Utah, but its payrolls are classified in the government sector. Utah's private education community added 1,400 new jobs this year.



This sector accounts for over 11 percent of all Utah jobs.

Leisure and Hospitality This industry recorded a net job gain of 2,200 positions. It largely has two components: arts, entertainment, and recreation; and lodging and food services. The biggest component is lodging and food services, employing about 84 percent of the roughly 104,200 workers recorded in leisure and hospitality. Nearly 600 new jobs were added in the arts, entertainment, and recreation segment.

This sector accounts for over 9 percent of Utah employment.

Other Services This is kind of a catch-all sector on the service-producing side of the ledger. It has a potpourri of businesses within its classification, such as repair services, personal services, and membership organizations. It's not a particularly large sector, employing around 33,000 workers. It experienced a net job increase of over 500 jobs for the year, but this is the smallest employment increase across all of Utah's employment sectors.

Government Government is a large employer in Utah. It consists of three components—federal, state, and local. Together, they make up just under 18 percent of Utah's employment base, the second highest among industries.

Local government is the largest component, and it is dominated by public school employment. Local governments employ more than the state and federal governments combined. Overall government employment grew by 3,400 positions, with 1,500 of this within local government. State government payrolls increased by 1,400 positions, while the federal government added close to 500 positions.

Wage Growth Equal to the Previous Year

Several years of slow wage growth finally reversed in 2004, when Utah wages increased by 3.5 percent. That increase was matched again in 2005, as Utah's average

annual non-agricultural pay of \$32,832 is 3.5 percent above the 2004 level.

Inflation for 2005, as measured by the U.S. Consumer Price Index (CPI-U), was 3.4 percent. So this year's wage gains mean that Utah's workers, at best, maintained their level of purchasing power.

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